

The Marketplace for PRNs

Market Status Report By Tom Rickerby, Head of Trading



The healthy PRN supply picture painted by the release of strong Q2 data is contradictory to the widespread reports of distressed conditions in recycling markets as global demand slows and waste arisings contract. Whilst market uncertainty kept PRN prices buoyant for much of the period, clarity on strong Q2 supply has brought increased deflationary pressure in the latter stages of the quarter. However, late obligation submissions continue to undermine the PRN system and muddy the supply and demand data fundamentals. The period was marred by renewed policy uncertainty with a U-turn on Scottish DRS and a delay to EPR payments.

A total of 398,497 tonnes traded on t2e during Q2, up 6% on the previous quarter and 3% on the same period last year. 254,401 tonnes were traded in the 2023 Spot Market, 84,197 tonnes were traded in the 28 Day Rolling Market and 59,899 tonnes were traded in the 2023 Forward markets.

Paper

No material has out-performed market expectations more than paper this year. Weak market sentiment has permeated every link of the Paper/cardboard recycling value chain, from waste collections to export and the manufacture of finished product yet PRN generation remains at near record levels. This dichotomy is highlighted in recent CPI data that indicates a 5% fall in waste paper collections to May, yet in the same period PRN generation rose 15% year on year. Whilst the former metric may have influenced many sellers' trading decisions, it is the latter that has ultimately driven PRN prices in the quarter. Spot prices initially fell to £10 in May but rebounded to a quarter high of £20.50 on weakening market sentiment. The recovery was short-lived though as prices tumbled again in the second half of the quarter, culminating in a collapse to £4.95, a 16-month low.

Plastic

Another volatile quarter for Plastic PRN prices as fears of distressed conditions in recovered plastics markets were tempered by improved PRN supply (up 5% on Q1). Spot prices yo-yoed, re-testing year lows at £245 and failing to break above established resistance of around £300 per tonne. The quarter average price fell nearly 10% on the previous quarter as the compliance outlook improves. However, the plastic price remains highly sensitive to obligation growth in the second half of the year as well as deteriorating sentiment in recovered plastic markets. The market can expect more unpredictable, choppy conditions in H2.

Glass

Glass' strong start to the year continued into Q2 applying further downward pressure to PRN prices. Remelt saw its first deflationary second quarter since 2019 with prices falling over 10% to a year low price of £112.50 by the quarter close. A response to a 5% increase in generation year on year and an anticipated drop in obligation. Traded volume was up 171% on the same period last year on t2e. Glass aggregate prices showed more resilience during Q2 as strong demand saw prices increase to a quarter high price of £112.50, reducing the price differential to Remelt. A fall back to £100 coincided with a softening in the Remelt price late in the quarter.

Steel

Back-to-back 100K+ supply quarters in 2023 show Steel returning to more stable conditions in the underlying scrap markets. Steel PRN prices have responded by shedding nearly 30% of their value in the 2nd Quarter. Spot prices stabilised in July at £27 to £28 and saw no reaction to the strong Q2 data. However, a significantly reduced risk outlook will likely give buyers confidence to target further price corrections in Q3 as H1 surpluses begin to weigh on price.

Aluminium

Quarter 2 saw the first signs that buying support was beginning to wane in Aluminium. Early demand in the quarter saw prices spike to a year high price of £215 in both Spot and Forward markets. However, the supply and demand picture at the half-year point is becoming increasingly hard to justify a £200+ PRN. Volume buyers pulled back from the market following the release of Q2 supply data. Prices

duly followed, softening 9% to close the quarter at £195. Buyers will hope this is the precursor to a more significant price correction in Q3. Traded volume was up 29% on the previous quarter.

Wood

Downward price pressure in the General / Paper / Wood markets is likely to intensify in the second half of the compliance year with the news that Wood has effectively hit its material specific target in the first six months. Wood tracked the Paper market trend during the period, recovering early losses to hit a mid-quarter high price of £15 per tonne before falling 40% to close the quarter at £9. Further price falls are likely as Wood re-aligns with the Paper price.

Q2 May - Jul 23	High	Low	Traded this quarter	Quarterly Average Price	YTD Average Price	Total Volume
Paper						
Spot 2023	£20.50	£4.95	81,847	£12.55	£19.08	127,901
28 Day Rolling 2023	£18.00	£4.95	55,627	£10.07	£17.51	91,077
JUL Forward 2023	£21.00	£10.00	15,399	£13.99	£20.82	38,899
OCT Forward 2023	£15.00	£4.95	8,000	£9.74	£14.96	14,750
DEC Forward 2023	£12.50	£4.95	3,000	£9.98	£19.59	5,000
Plastic						
Spot 2023	£310.00	£245.00	63,715	£283.78	£298.34	131,674
28 Day Rolling 2023	£300.50	£245.00	16,771	£283.97	£300.32	35,657
JUL Forward 2023	£300.00	£260.00	2,675	£287.48	£341.52	8,725
OCT Forward 2023	£300.00	£260.00	3,300	£283.86	£324.51	8,200
DEC Forward 2023	£270.00	£245.00	590	£259.83	£345.69	5,090
Glass Other						
Spot 2023	£112.50	£100.00	24,534	£106.55	£108.21	50,622
28 Day Rolling 2023	£112.50	£100.00	3,250	£103.15	£106.94	11,469
OCT Forward 2023	£100.00	£100.00	2,500	£100.00	£97.78	4,500
Glass Remelt						
Spot 2023	£130.00	£112.50	32,000	£123.11	£129.23	63,509
28 Day Rolling 2023	£125.00	£115.00	6,250	£121.70	£127.72	9,950
OCT Forward 2023	£125.00	£120.00	2,250	£124.44	£128.09	6,550
Steel						
Spot 2023	£38.50	£27.00	13,131	£30.54	£34.17	21,385
28 Day Rolling 2023	£39.00	£28.00	1,330	£29.45	£36.84	7,937
JUL Forward 2023	£38.00	£27.00	6,750	£27.85	£38.91	20,600
OCT Forward 2023	£38.00	£27.00	1,750	£30.29	£37.94	8,600
DEC Forward 2023	£30.00	£30.00	1,000	£30.00	£36.46	2,600
Wood						
Spot 2023	£20.00	£9.00	35,349	£12.99	£18.55	69,434
OCT Forward 2023	£14.00	£14.00	7,685	£14.00	£17.38	9,785
Aluminium						
Spot 2023	£215.00	£195.00	3,825	£203.71	£194.68	7,754
28 Day Rolling 2023	£215.00	£197.00	969	£199.52	£181.17	1,744
JUL Forward 2023	£200.00	£197.00	1,450	£198.90	£181.91	2,850
OCT Forward 2023	£215.00	£190.00	2,200	£198.86	£185.06	3,550
DEC Forward 2023	£215.00	£198.00	1,350	£205.93	£190.81	1,850

Managing Director's Comments August 2023

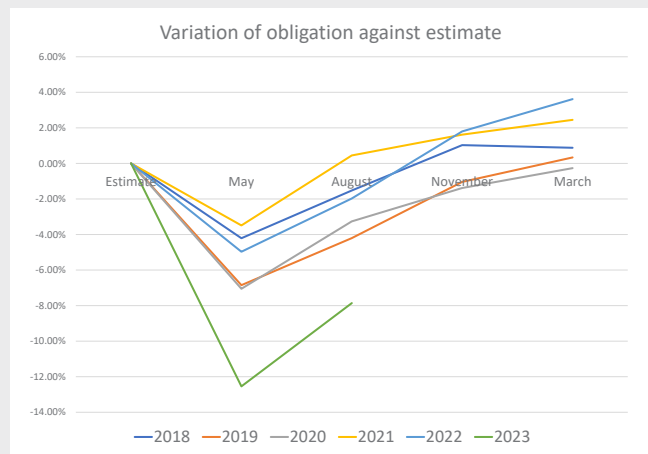


A quiet summer has been replaced by a quarter of frantic activity. Quarter on quarter trading has been up. Buoyant PRN prices have boosted supply but are now facing downward pressure in the face of apparent excess although considerable doubt exists over demand figures. Concurrently secondary raw material markets are starting to come under price pressure with participants reporting drops

in demand and possibly more significantly in supply. Meanwhile in June it was announced not only was the proposed Scottish Deposit Return Scheme (DRS) delayed until at least October 2025 but also that payments to local authorities had been pushed back to the same date. Extended Producer Regulations (EPR) Data submissions are still anticipated by 1 October 2023. As the quarter closed the final icing on the cake was the publication, on 27 July 2023, of the long-awaited draft EPR regulations – 137 pages of light reading! – and accompanying consultation and responses to the 2022 consultation, a further 97 pages to read.

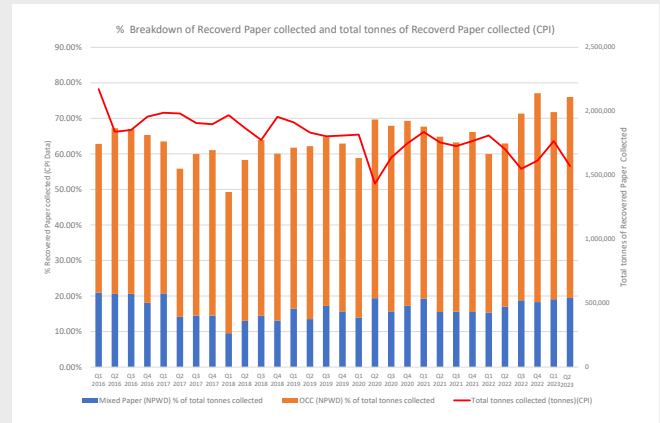
Q2 Data

As can be seen on our new NPWD data page, the key issue is that although the obligation increased by some 400k tonnes on Q1, it is still some 650k tonnes below the obligation predicted on last year's data. The Confederation of Paper Industries reports a 5% drop in paper collection in the year to date following a 2% drop in 2022. If this drop is reflected in the overall obligation, then there is still a further 450k growth due in the obligation. This is the largest variation at this stage ever. It is disappointing to see nothing in the draft legislation to counter this abuse.



However, on current PRN production this obligation will be met overall with room, c.200k tonnes, to spare. Much of which may be anticipated to be carried forward into 2024, where the lack of targets is inhibiting forward trading. The exceptions are Glass overall and Plastic. The key area of growth is exports which is up c.200k tonnes year on year but even that is down quarter on quarter as the £ strengthens against other currencies. Overall PRN production is down by c.150k quarter on quarter and reprocessing is down c.40k year on year too. If this trend continues, as is possible as the metals are unlikely to have four consecutive strong export quarters, then the General price may once again come under pressure.

Paper



Much depends on the performance of paper, which according to the monthlies continues to defy expectation in PRN production despite both secondary raw material and PRN price dropping!

While there is a clear shift to consuming mixed paper domestically, the most distinct recent trend is the growth of OCC exports in the last three quarters, which may explain the unexpected growth in PRNs. What is also clear is that with the decline of newspaper use the tonnage of paper collected has reduced and the percentage of packaging and in particular OCC in paper collected has increased.

Delays

While disappointment was expressed in many quarters, the delays to both EPR payments and the Scottish DRS were inevitable. Industry had been explaining that that a Scottish DRS was unnecessarily expensive to introduce. Whereas the decision to only collect data in the first year of EPR, while tiresome for industry is nonetheless pragmatic. When Producer Responsibility was first introduced it only involved companies with a turnover in excess £5 million. That level reduced to £2 million turnover two years later. Far better to take time to check systems are working than to rush into legislation which is then regretted later.

PRNs are incorporated into the draft legislation. They will continue to provide evidence accredited by the Environment Agencies of packaging recycling, but the potential removal of the general recycling target is ill-judged. It risks increasing price volatility, reducing the incentive for accredited reprocessors and exporters to over perform and the flexibility inherent and necessary in the regulations to cope with the global volatility of the packaging and secondary raw material markets. t2e will continue to provide the UK's marketplace for them as well as do our best to ensure that there is a level-playing field for information, particularly price, for all market participants. Those that are reliant on the price should not trust others to set the price for them but rather set the prices themselves through using the marketplace.

Once again thank you to all for their support last quarter. We look forward to seeing you at the Recycling and Waste Management Show at Birmingham and to continue being of service to you.

Angus Macpherson
Managing Director

The Marketplace for PRNs

Q2, 2023 Supply Analysis By Andrew Letham, Operations Manager



Despite Total recycling falling 60,000 tonnes (t) Quarter on Quarter (QoQ) recycling rates remained high in Q2, up 402,291t Year on Year (YoY) with all materials except Glass Aggregate tracking ahead

of the current obligation at the midway point of the year. Paper, Wood and Steel have seen the biggest improvement, growing between 12-19% Year To Date (YTD), replacing much of the 361,690t reduction in carry-in from 2022. Plastic and to a lesser degree Aluminium remain on the watch list despite posting strong returns in Q2, with the health of these markets largely dependent on the growth in demand between now and the end of the year.

The total obligation currently sits 671,305t below the final 2022 figure with Aluminium looking likely to be the only material to experience growth in Obligation YoY. Most large producers look to have completed their packaging returns with Paper, Plastic, Wood and Glass all seeing between a 7%-10% decline, however resubmissions are still possible, and growth is almost certain with 493 fewer producers currently registered than at close of play 2022 (7,193).

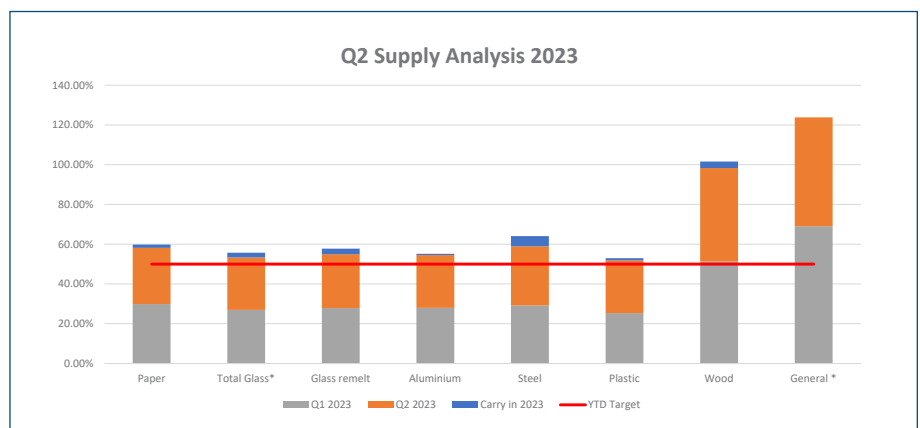
Plastic recycling amounted to 296,496t in Q2 marking an increase of 4.6% Quarter on Quarter. Despite this growth in supply, only 51.8% of the current plastic obligation has been satisfied YTD, with demand currently down 93,000t YoY. If supply continues on its current trajectory, we could end the year with a surplus, even when considering the expected increase in obligation. However, Q3 is anticipated to be a challenging quarter with diminished demand for finished product and manufacturing slowdowns as factories go into their seasonal downtimes. Nevertheless, the robust PRN support currently available might help alleviate some of these challenges.

Strong **Paper** recycling continued in Q2 with 974,299t reported. This reflects a 5.3% drop QoQ but still looks very healthy against an obligation which currently sits 262,731t below last year's total at 3,443,964t. At current levels of supply Paper seems poised to comfortably meet its own obligation and offer a considerable boost to the General Recycling pot. However, with PRN prices witnessing a sharp contraction in Q2 a dip in recycling rates in the latter half of the year is possible. Concerns over the integrity of the recycling data also merits scrutiny, as the latest HMRC figures indicate that paper exports are below PRNs produced.

A slight decline in **Glass** Remelt year-on-year, to the tune of 3,822t, hasn't dampened a much-improved start to the year. YTD figures show good growth, with an uptick of 52,619t, driven by an improved Q2 Aggregate return, up 15,037t YoY at 118,510t. The current combined obligation of 1,726,738t is trailing last year's total by 194,643t and it is anticipated to fall somewhat short of this come the end of the year showing the market to be in good health. Despite this, PRN prices remain resilient, possibly driven by concerns of material scarcity flagged by several operators. Given the prevailing

Material	Carry In	Q1	Q2	2022 Obligation	YTD Supply + Carry In	Balance
Paper	56,652	1,028,787	974,299	3,443,964	2,059,738	-1,384,226
Total Glass*	41,219	465,173	455,823	1,726,738	962,215	-764,523
Glass remelt	34,605	346,266	337,313	1,243,251	718,184	-525,067
Aluminium	914	41,093	38,998	146,832	81,005	-65,827
Steel	18,587	105,488	107,681	361,676	231,756	-129,920
Plastic	12,198	283,355	296,505	1,118,107	592,058	-526,049
Wood	11,442	179,368	164,596	349,828	355,406	5,578
General *	0	316,478	251,116	458,449		
Total	141,012	2,103,264	2,037,902	7,147,145	4,282,178	-3,390,034

*Total Glass consists of the combined total supply of Glass Remelt and Glass aggregate. *Please note the general supply figure has been generated from calculating the surplus material prns in each quarter and does not include carry in tonnage.



recycling rates, Remelt will likely be tapped into to fulfil the Aggregate obligation, suggesting that prices will maintain their close alignment.

Aluminium continues to track ahead of target despite falling 5% QoQ with the 38,998t reported as recycled in Q2 still larger than any return posted in 2022. At current levels of supply the 146,832t obligation should be met with surplus even when factoring in anticipated growth between now and the end of the year which has been reflected in recent price corrections.

Steel supply has risen by 34,715t YTD, even with a 2,512t YoY decline in Q2 recycling. This year's quarterly average, at 106,585t, is 16.6% higher than the previous year, illustrating the challenging quarters flanking Q2 in 2022, against this year's more stable market. As it stands 59% of the present obligation (361,676t) has been met in year which despite growing 13,254t from the start of the year remains 5% down on 2022. If the obligation were to grow to the same level as last year, current levels of supply would ensure compliance was not only achieved but exceeded.

Wood has fulfilled 98% of its current material-specific obligation of 343,964t and is poised to make a significant contribution (approximately 300kt) to the General Recycling pot. Elevated PRN prices in the first half of the year, spurred by the exceptional close to 2022 have facilitated growth in average quarterly recycling rates, which currently exceed last year's figure by 13,310t. Given that PRN prices have plummeted to nearly 15% of their opening value, a decline in recycling rates seems probable, however this being significant enough to see a major price correction now appears increasingly unlikely.

The Marketplace for PRNs

NPWD Data

In our t2e website's members section, you'll find the NPWD Data webpage conveniently located on the left side of the navigation bar. This page consolidates all relevant NPWD reports that influence the PRN market's supply and demand, offering you a one-stop overview. The tables and graphs presented are directly sourced from the National Packaging Waste Database (NPWD) and are automatically incorporated into our calculations. It's worth noting that while the data aims to accurately represent NPWD figures, occasional discrepancies may occur. We recommend periodic verification. Furthermore, our data updates occur twice daily, so the most recent report versions might sometimes be delayed. For any inquiries or suggestions for enhancement, kindly reach out to our trading team.

The data presented in the Demand table can be used to monitor the Obligation of a particular material as it grows throughout the year. When compared against current Recycling rates outlined in the supply table we can begin to assess whether a specific market is under supplied, over supplied or balanced. Our Supply and Demand graph offers a visual representation of how well current obligations are being met, both with and without the inclusion of carry-in. In normal circumstances PRN prices would be expected to rise in an undersupplied market, fall in an oversupplied market and remain stable in a balanced market.

